

Report of the auditor-general to Gauteng Provincial Legislature and the council on the Lesedi Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Lesedi Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts and appropriation statement for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Lesedi Local Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standard of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (DORA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material uncertainties

7. With reference to note 42 to the financial statements, the municipality is the defendant in various lawsuits. The ultimate outcome of these matters cannot presently be determined and therefore, no provision for any liabilities that may result has been made in the financial statements.

Restatement of corresponding figures

8. As disclosed in note 44 to the financial statements, the corresponding figures for 30 June 2017 have been restated as a result of errors discovered in the financial statements of municipality for the year ended 30 June 2018.

Material impairment

9. As disclosed in note 11 to the financial statements, trading service and customer service debtors were significantly impaired as the recoverability of these amounts is doubtful. The allowance for impairment of trading service and consumer receivables amount to R490 879 735 (2016-17: R453 386 316) which represents 80% (2016-17: 80%) of trading service and consumer debtors. The contribution to provision for debt impairment was R106 539 189 (2016-17: R105 917 730).

Material losses

10. As disclosed in note 56 to the financial statements, material electricity losses to the amount of R38 792 776 (2016-17: R32 413 833) which represents 23.57% (2016-17: 13%) of electricity purchased. Technical losses amounted to R8 572 961 (2016-17: R8 359 322) and were incurred due to the distribution of electricity from the source to the final consumer. Non-technical losses amounted to R27 621 685 (2016-17: R20 460) which are mainly due to illegal connections and faulty meters.

Other matter

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

12. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements¹³

13. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP and the requirements of the MFMA and the Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
14. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

15. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
16. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

17. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected key performance areas presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
18. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
19. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2018:

Development priorities	Pages in the annual performance report
KPA 2 - Basic service delivery	x – x

20. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

21. The material findings in respect of the usefulness and reliability of the selected key performance areas are as follows:

KPA 2 - Basic service delivery

% completion on construction of Vischkuil Reservoir(PIPE)

22. I was unable to obtain sufficient appropriate audit evidence that the reported achievement of % completion on construction of Vischkuil Reservoir(PIPE) is reliable. This was due to differences between the evidence inspected and the reported output. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 0%.

% completion of 0.8km roads upgrade at Jameson Park

23. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of % completion of 0.8km roads upgrade at Jameson Park. This was due to differences between the evidence inspected and the reported output. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 100%.

% completion of 1.5km roads & storm water upgrades at Obed Nkosi

24. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of % completion of 1.5km roads & storm water upgrades at Obed Nkosi. This was due to differences between the evidence inspected and the reported output. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 17%.

Number of elderly, disabled and environmental health support programmes implemented

25. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of number of elderly, disabled and environmental health support programmes implemented is not reliable. This was due to differences between the evidence inspected and the reported output. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 8.

Number of new households with access to refuse removal

26. I was unable to obtain sufficient appropriate audit evidence of number of new households with access to refuse removal is not reliable. This was due to differences between the evidence inspected and the reported output. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 250.

Number of community safety campaigns conducted

27. I was unable to obtain sufficient appropriate audit evidence of number of community safety campaigns conducted is not reliable. This was due to differences between the evidence inspected and the reported output. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 12.

Number of community based HIV/AIDS awareness campaigns

28. I was unable to obtain sufficient appropriate audit evidence of number of community based HIV/AIDS awareness campaigns is not reliable. This was due to differences between the evidence inspected and the reported output. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 10.

Other matter

29. I draw attention to the matter below.

Achievement of planned targets

30. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 22 to 28 of this report.

Report on the audit of compliance with legislation

Introduction and scope

31. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
32. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements

33. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of trade and other receivables and commitments identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Consequence management

34. Some of the unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section by 32(2) (a) and 32(2)(b) of the MFMA.

Procurement and contract management

35. Quotations were accepted from bidders who did not submit a declaration (MBD4 forms) on whether they are employed by the state or connected to any person employed by the state, as required by Supply Chain Management Regulation (SCM regulation) 13(c). Similar non-compliance was also reported in the prior year.

36. One bid was accepted from a bidder whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.
37. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year.
38. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5. Similar non-compliance was also reported in the prior year.
39. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA. Similar non-compliance was also reported in the prior year.

Expenditure management

40. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e).
41. Reasonable steps were not taken to prevent irregular expenditure amounting to R56 979 304 as disclosed in note 50 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by deviations approved by the accounting officer that were not always justifiable and in compliance with s36(1)(a) of the MFMA.

Other information

42. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in the auditor's report.
43. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
44. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
45. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

46. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective

was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

47. The accounting officer did not adequately exercise oversight responsibility regarding financial and performance reporting and compliance with legislation. The municipality did not have sufficient monitoring controls to ensure that financial and performance reports submitted for audit were accurate and complete.
48. Senior management did not implement adequate control disciplines over financial and performance reporting. There was a lack of a proper records management system that could support the information reported in the financial statements and performance report and as a result material errors and omissions were identified during the audit process.
49. Senior management did not adequately monitor compliance with procurement regulations and expenditure management. This resulted in a number of material non-compliance with the relevant laws and regulations.
50. The audit committee did not provide the necessary level of oversight over governance matters. Risk management processes were also not effective; consequently, internal audit processes did not always identify internal control deficiencies and recommend appropriate corrective action effectively. This resulted in significant and recurring control deficiencies relating to the preparation of financial and performance reports and compliance with legislation.

Other reports

51. I draw attention to the following engagements conducted by one party that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

52. The President of the Republic of South Africa signed a Proclamation No.R.25 of 2017 in terms of the Special Investigations Unit (SIU) and Special Tribunals Act, 1996, (Act no. 74 of 1996) and authorised the SIU to investigate procurement irregularities to the affairs of the municipality. This investigation was not finalised at the time of this report.

Auditor - General

Johannesburg

30 November 2018



Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Lesedi Local Municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause the municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.